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IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-279

ROYAL INDUSTRIES, and PLAS-TIES SUBSIDIARY,
Petitioners,

vs.

ST. REGIS PAPER COMPANY,
Respondent.

BRIEF OF RESPONDENT ST. REGIS PAPER COMPANY IN OPPOSITION TO ROYAL INDUSTRIES' PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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Opinions Below

The opinion of the Court of Appeals (PR-EX A-1),* affirming the United States District Court for the Central District of California after trial, is reported at 522 F.2d 309 (9th Cir. 1977). The District Court's opinion is reported at 186 U.S.P.Q. 83 (C.D. Cal. 1974); the District Court's minute order is not reported (SA-38).**

* References beginning with PR are to pages in Royal Industries, Inc.'s and Plas-Ties Subsidiary's ("Royal") petition and PR-EX to the exhibits therein.

** In a related petition, St. Regis has requested this Court to grant a writ of certiorari to the Ninth Circuit reviewing the refusal of the courts below to refund to St. Regis the royalties paid for the patent which issued by reason of the applicant's false oath to the Patent Office. Said petition is Docket No. 77-271 and this Court is respectfully referred thereto. References beginning with S are to St. Regis' petition 77-271 and SA to the Appendix therein. The opinions below are fully set forth therein (SA-1-41).

Counterstatement of the Questions Presented

1. Whether the *Lear* doctrine applies to a license agreement which contains a termination clause?

2. Whether the courts below after ordering rescission of the license agreement pursuant to California law had the power to award to Royal Industries the value for "know-how" received by St. Regis under the agreement?

STATEMENT OF THE CASE

This action was commenced by St. Regis Paper Company ("St. Regis"), prior to this Court's decision in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969), to declare invalid the patent licensed pursuant to the license agreement (PR-EX B-16), which was entered into only upon specific assurances as to the validity of the patent, to rescind the agreement under state law and to recover royalties paid thereunder. Royal counterclaimed for infringement relief including a permanent injunction. The courts below held the patent invalid, a holding not challenged by Royal's petition, rescinded the license agreement and dismissed Royal's counterclaims for infringement relief including its demands for preliminary and permanent injunctions.

REASONS THE WRIT SHOULD NOT BE GRANTED

I.

The *Lear* Doctrine Applies to License Agreements Which Contain Termination Clauses.

There is nothing in Royal's Petition which distinguishes it from the principles already decided in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969).

The right of a licensee to bring suit to declare a patent invalid under *"Lear* does not depend upon the presence or

absence of a termination clause" in the license agreement. *PPG Industries, Inc.* v. *Westwood Chemical, Inc.*, 530 F.2d 700, 707 (6th Cir. 1976), *cert. denied*, 45 U.S.L.W. 3250 (U.S. Oct. 5, 1976); *American Sterilizer Co.* v. *Sybron Corp.*, 526 F.2d 542, 546 (3d Cir. 1975). Indeed, *Warner-Jenkinson Co.* v. *Allied Chemical Corp.*, 193 U.S.P.Q. 753 (2d Cir. 1977), cited by Royal, holds that a nontermination provision of a license agreement included in a settlement agreement did not preclude a declaratory judgment action to declare the patent invalid. The license agreement in *Lear, supra,* contains a termination provision. Royal attempts to distinguish *Lear, supra,* by claiming (1) that the validity of the patent was not important to St. Regis, which is factually false, and (2) that the contract also provided for "know-how" which the courts below found was intimately intertwined with the patent rights.

Contrary to the assertions in Royal's petition, St. Regis sought specific assurances as to the validity of the Bower patent prior to entering into the license agreement and cared very much whether the patent was valid. The District Court's finding of fact number 22 states:

> "22. At the outset of the negotiations leading to the license agreement of May 1, 1963, and in the presence of Mr. Bower, plaintiff's negotiators requested assurances of the validity of the Bower patent prior to proceeding. Tr. 411-2. Bower's presence on this occasion was affirmed by Johnson at Tr. 435-6" (SA-31).

Royal's demand for payments for "know-how" disregards (1) the obligation of the patentee to disclose the practice of the patented process in exchange for his patent, *Flick-Reedy Corp.* v. *Hydro-Line Mfg. Co.*, 351 F.2d 546, 550-51 (7th Cir. 1965), *cert. denied*, 383 U.S. 958 (1966); *Universal Oil Products Co.* v. *Globe Oil and Refining Co.*, 322 U.S. 471, 484 (1944), (2) the fact that the "know-how" contracted for was an unknown quantity which Royal re-

fused to let St. Regis examine until it had paid $20,000 (SA-32), and (3) the uncontroverted evidence before the District Court as to the value of Royal's "know-how" (SA-14).

II.

The District Court had the Power to Evaluate the Benefit Received by St. Regis Under the Rescinded License Agreement.

Rather than converting the license agreement into a lump sum payment contract as contended by Royal, the District Court rescinded the license agreement and awarded to Royal the reasonable value of the "know-how" or the benefits it found St. Regis had obtained under the contract. Thus, the District Court exercised traditional equitable jurisdiction and did not permit St. Regis to reap benefits under the rescinded license agreement without paying for them. *Millar* v. *James,* 254 Cal. App.2d 530, 62 Cal. Rptr. 335, 337 (Ct. App. 1967); Cal. Civ. Code § 1692 (SA-52). Royal did not submit any evidence of the value of its "know-how". St. Regis submitted evidence of value, $53,088.90, which the District Court accepted. The evidence submitted at trial showed that St. Regis contracted for the "know-how" sight unseen, that Royal's "know-how" enabled St. Regis to get into production sooner than otherwise (PR-EX A-13), and after Royal's original disclosure of "know-how" St. Regis substantially modified the production machinery so that it was not using any significant part of Royal's "know-how". The Court of Appeals did not create a new rule of law, rather it recognized that the contract *as written* did not separate payment for royalties from payment for "know-how" and that such a separation was "contrary to the intent of the parties" (PR-EX A-13). It affirmed the District Court's valuation of "know-how" at $53,088.90 stating that such valuation was "fairly generous" (PR-EX A-14).

III.

Payment of Royalties is Not a Precondition to a Suit to Declare a Patent Invalid.

Contrary to the assertion of Royal, *Warner-Jenkinson Co.* v. *Allied Chemical Corp.* 193 U.S.P.Q. 753 (2d Cir. 1977), and other cases have not overruled this Court's holding in *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 673 (1969), that requiring licensees "to pay royalties during the time they are challenging patent validity in the courts . . . would be inconsistent with the aims of federal patent policy." Rather *Warner-Jenkinson Co.* v. *Allied Chemical Corp., supra,* held that withholding of royalty payments was "not" a "precondition to suit" in light of the "potential liability for infringement." 193 U.S.P.Q. at 756. The Second Circuit in *Warner-Jenkinson* permitted the licensee "to keep his license while he attack[ed] the validity of the licensor's patent" but held that if he kept the license he must pay royalties. It recognized that the licensee had "the option of withholding royalties and thereby breaching the licensing agreement," the very option selected by St. Regis in this case. *Id.* at 756, 757. Here St. Regis undertook the risk of an infringement claim and indeed Royal asserted a counterclaim for infringement and sought injunctive relief *pendente lite* based upon the alleged infringement.

St. Regis was not afforded the main protection of a license agreement—the freedom from an infringement suit. In this case Royal counterclaimed for a preliminary and final injunction against infringement and for damages caused by St. Regis' alleged infringement. Royal's statement that St. Regis obtained the freedom from infringement litigation (PR-12) is inexplicable, in light of its counterclaim for infringement in this very action (PR-3) and Royal's earlier suit for infringement (PR-EX A-3).

Under the circumstances of this case, any purported distinction between requiring the licensee to pay royalties *pendente lite* which would then be restituted (with interest) under Royal's reading of *Warner-Jenkinson* and the decision below which did not require such payments is one without a difference. The Bower patent was declared invalid and Royal has not challenged this declaration in its petition. Consequently, had royalties been paid by St. Regis during the pending litigation, they would have to be returned by Royal to St. Regis under the *Warner-Jenkinson* language cited by Royal (PR-11-12).

Royal's final suggestion that this Court prohibit withholding of royalty payments if the patent is held invalid after the license agreement terminates serves no purpose but to encourage dilatory practice by counsel for the patentee. This suit to declare the Bower patent invalid was commenced on April 24, 1968. The District Court's minute order dated March 31, 1971 held St. Regis entitled to judgment yet the final decision of the District Court was not rendered until July 19, 1974. By reason of this delay, Royal argues that it is entitled to royalties on the concededly invalid patent because the license agreement terminated on October 16, 1973 before the final judgment of the District Court. The ability of counsel to unduly protract the conduct of a case was recognized and found to be contrary to federal patent policy by this Court in *Lear, supra*:

> "The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.
>
> "It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to post-

> pone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts." 395 U.S. at 673.

St. Regis submits that encouragement of such dilatory practices and the concomitant burden on the federal courts by permitting recovery of royalies on an invalid patent if the patent is not held invalid until after the expiration of the license agreement is contrary to the public interest.

CONCLUSION

For the foregoing reasons, Royal's petition for a writ of certiorari should be denied.

Respectfully submitted,

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September 21, 1977

CERTIFICATE OF SERVICE

I hereby certify that three copies of the foregoing Brief of Respondent St. Regis Paper Company in Opposition to Royal Industries' Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit were served on the following by mailing by first class air-mail to their respective attorneys at the address indicated below:

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I further certify that all parties required to be served have been served.

Dated: September 21, 1977

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